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ECONOMIC COMMISSION FOR LATIN AMERICA
Eighth Session
Panama City, Panama

COMMITTEE I
(Economic Development)

SUMMARY RECORD OF THE FIRST MEETING

Held at Panama City on Monday, 18 May 1959, at 10.40 a.m.

CONTENTS:

Economic development problems and policy:

(b) Economic development and the regional market

/PRESENT:

PRESENT:

<u>Chairman:</u>	Mr. CASTILLO	(Nicaragua)
<u>Members :</u>	Mr. BALDINELLI	Argentina
	Mr. HAUS SOLIZ	Bolivia
	Mr. ALMEIDA SANTOS	Brazil
	Mr. MARTY	Chile
	Mr. MENDEZ	Colombia
	Mr. MOREIRA BATRES	Costa Rica
	Mr. BOTI	Cuba
	Mr. GINEBRA	Dominican Republic
	Mr. PITARQUE	Ecuador
	Mr. SANCHEZ AGUILON	El Salvador
	Mr. LETONDOT	France
	Mr. FUENTES MOHR	Guatemala
	Mr. PALACIOS	
	Mr. MENDOZA	Honduras
	Mr. OCADIZ	Mexico
	Mr. van PHILIPS	Netherlands
	Mr. GUERRERO	Nicaragua
	Mr. AMADO	Panama
	Mr. CHAMORRO	Paraguay
	Mr. CERRO CEBRIAN	Peru
	Mr. SIMPSON	United Kingdom of Great Britain and Northern Ireland
	Mr. ROSENSON	United States of America
	Mr. SAMMONS	/Mr. POLLERI

Mr. POLLERI CARRIO	Uruguay
Mr. D'ASCOLI	Venezuela

ALSO PRESENT:Observers from
States not members
of the Commission:

Count BORCHGRAVE d'ALTENA	Belgium
Mr. RICHARDSON	Canada
Mr. HOKES	Czechoslovakia
Mr. HOLLAI	Hungary
Mr. BARBOSI	Italy
Mr. KANEDA	Japan
Mr. JELEN	Poland
Mr. SANCHEZ BELLA	Spain
Mr. KORYAKIN	Union of Soviet Socialist Republics
Mr. EL-TAHRI	United Arab Republic

Observer from a State
not a Member of the
United Nations, attending
in a consultative
capacity:

Mr. ENGELS	Federal Republic of Germany
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Representatives
of specialized
agencies:

Mr. EZEKIEL	Food and Agriculture Organization
Mr. PERRY	International Bank for Reconstruction and Development
Mr. PENNA	United Nations Educational, Scientific and Cultural Organization

/Representatives of

Representatives of inter-
governmental organizations:

Mr. de GERMAIN	European Coal and Steel Community
Mr. FANIEL	European Economic Community
Mr. MONTENEGRO	Inter-American Statistical Institute
Mr. EPINAT	Inter-Governmental Committee European Migration

Representative of a non-
governmental organization:

Mr. GARCIA MORENO	World Federation of Trade Unions
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Secretariat:

Mr. PREBISCH	Executive Secretary
Mr. HEURTEMATTE	Commissioner for Technical Assistance
Mr. SWENSON	Deputy Director
Mr. LEONARD	Director, Statistical Office
Mr. AHUMADA	Secretary of the Committee

ECONOMIC DEVELOPMENT PROBLEMS AND POLICY:
ECONOMIC DEVELOPMENT AND THE REGIONAL MARKET (E/CN.12/C.1/13)

Mr. AHUMADA (Secretary of the Committee), introducing the secretariat's study of the influence of the common market on the economic development of Latin America (E/CN.12/C.1/13), said that despite the advances reflected in chapters I and II of the study many difficulties remained to be overcome. Firstly the Latin American countries continued to depend largely on exports to provide the capital necessary for development, with the result that any reduction in the volume of exports meant a corresponding reduction in the amount of capital available for investment. Secondly, in some countries the development process was accompanied by monetary instability. Thirdly, there was an undesirable change in the structure of output, the supply of wage goods increasing less than total supply. That was mainly a consequence of the inelasticity of the agricultural production. Fourthly, reflecting and reinforcing the change in the composition of output, there had been a change in the distribution of income, with a tendency for higher incomes to increase more rapidly than lower incomes. Fifthly, the evolution of the administrative machinery of the various Governments concerned had not kept pace with events during the past thirty years. For example, the rapid rate of population growth and the trend towards urban concentration increased the pressure on Governments to expand social services, while the inflexibility of fiscal policies made such expansion difficult to finance.

/ The expansion

The expansion of world demand for Latin America's traditional exports was not likely to exceed 3 per cent per annum in the next fifteen years. Given the rather low rate of growth, development would depend on foreign financing and import substitution. There had been excessive optimism with regard to the potentialities of external financing, as the two alternative hypotheses described in the Secretariat document E/CN.12/C.1/13 had shown. Hence, the import substitution process would have to be accelerated, with a corresponding reduction of the import coefficients of the respective countries, if the region was to be able to keep up the rate of development registered over the past decade. That in turn led to the question how much the countries concerned could reduce their respective import coefficients without ultimately prejudicing their export trade. The analysis in section 3 indicated that the substitution process required would have to be so rapid that it would not be a feasible solution. There were, however, two alternative solutions, namely: the expansion of extra-regional exports of goods other than the traditional commodities, necessitating a notable change in the trade policies of the developed countries to which such exports would be directed; and an expansion of intra-regional trade - in other words, a common market.

The idea that the latter concept would mean the development of ruthless competition among the Latin American countries was unfounded, since the increased prosperity which the common market would bring to all its members would result in greatly increased demand for a wide variety
/ of products.

of products. It should be noted in that connexion that the establishment of such a common market would bring about marked changes in the structure of intra-regional trade, the products which now made up the bulk of that trade dropping to a secondary position, with others, such as machinery and chemicals, assuming primary importance. One of the most urgent tasks, therefore, was to find a means of reconciling short- and long-term requirements and interests.

Although the common market seemed indispensable to maintain the rate of development of the region, it was also evident that the other obstacles mentioned needed to be removed.

Mr. FUENTES MOHR (Guatemala) asked if the change in the distribution of income referred to by the Secretary of the Committee had been accompanied by a corresponding increase in the rate of private investment and capitalization of the Latin American countries.

Mr. AHUMADA (Secretary of the Committee) replied that the rate had remained constant since 1945.

Mr. BOTI (Cuba) thought that the analysis in document E/CN.12/C.1/13 underestimated the significance of the fact that agricultural production in Latin American countries was increasing at a slow rate. In view of that circumstance one of the most urgent tasks confronting the Latin American countries was to seek ways of increasing their agricultural output. He asked the Secretariat what were the reasons for the inelasticity of the supply of those goods.

/ Mr. AHUMADA

Mr. AHUMADA (Secretary of the Committee) said that the Cuban representative's observation was correct; the secretariat had not, however, made a specific study of the factors responsible for the inelasticity of agricultural production in Latin America.

Mr. EZEKIEL (Food and Agriculture Organization) said the worldwide studies made by his organization showed that the developed countries had achieved an enormous increase in agricultural production thanks to the application of improved agricultural techniques, whereas the Latin American countries had done little along those lines, their Governments failing to provide farmers with the requisite public services in the form of research, information and training. It was also important to take into account the relative demand for different types of products. For example, technological improvements had enabled countries formerly importing temperate-zone products to produce those products for themselves, whereas that substitution could not be effected in the case of products of the tropical zone. Planning for the common market should include consideration of the long-range outlook with regard to the demand for the particular products of each member country.

Mr. BOTI (Cuba) thought that the slower progress of the Latin American countries in agricultural technology was largely due to institutional factors and to local peculiarities in land tenure.

Mr. EZEKIEL (Food and Agriculture Organization) stressed that he had not tried to list all the possible causes. Furthermore, technological
/ advancement was

advancement was but one aspect of the whole problem. He might also have mentioned, for example, the unfortunate tendency to base all policy planning on the reduction of imports and the expansion of exports, when the proper objective should be a sound balance between the two.

Mr. SANTOS (Brazil) said that an over-all analysis of the kind made by ECLA sometimes failed to reflect the special conditions prevailing in individual countries. He next pointed out that increased industrial production was mainly necessary because of the reduced possibilities of expanding agricultural exports, and stressed the need to encourage foreign investment --- without which the requisite capital development and infrastructural expansion could not be undertaken with import substitution. The need for such investment would in no way be lessened by the establishment of the common market.

He then took up the problem of inflation. Structural changes always created inflationary pressures, and the monetary and fiscal policies adopted often made matters worse. Some inflation was perhaps inevitable, but unless action was taken to prevent it from spreading, all the efforts exerted to speed economic development might be nullified.

In conclusion, he described the strides made in Brazil in the production of durable goods. The benefits of that production were felt by virtually all income groups.

Mr. SAMMONS (United States of America) felt that the apparent decision to renounce all attempts at the creation of new export industries / might have

might have been somewhat premature. Latin American industry must first, of course, be placed on a competitive basis; but with more trained manpower and administrative personnel much could probably be accomplished.

His delegation also thought that, in view of the costs involved, some limitations should be placed on the import substitution process. Moreover, the projections made by the secretariat might in some cases be seriously affected by supervening trends.

Lastly, he stressed that the soundest means of attaining lasting results was to seek to achieve increased incomes and minimum unit costs within a free economy. The common market could prove a great blessing, but those responsible for its operation should concentrate primarily on creating the general conditions within which industry could expand.

Mr. MENDEZ (Colombia) said that the desirability of the common market was no longer at issue. Colombia, for one, was prepared to accede immediately to any general formula designed to secure the establishment of the necessary system.

The United States representative had apparently overlooked the fact that some countries had already made strenuous efforts to export their manufactures. Colombia, for example, had tried to export its high-quality textiles, but had concluded that it was as yet in no position to compete. The diversification of exports would remain difficult until there was some change in the trading policies of the advanced nations. Nor could he agree with the United States representative that the import / substitution process

substitution process needed to be limited, for any other course would in the long run prove even more difficult to finance. Moreover, the secretariat recommendations seemed to cover adequately the United States representative's point regarding the creation of favourable general conditions.

The FAO representative's views on improving agricultural methods had already been adequately analyzed. As to the contention that undue stress was being put on the curtailment of imports and the expansion of exports, there was no other means whereby under-developed countries could acquire the necessary capacity to import essential equipment.

Mr. BALDINELLI (Argentina) explained how, in Argentina, the rising level of living had necessitated increased imports, to a point where the country faced considerable balance of payments difficulties. In those circumstances, an increase in agricultural exports could offer but a partial solution, especially since Argentina lacked the industry to provide its agriculture with all the modern equipment it needed, and many of its traditional customers had expanded their domestic agricultural production so much that the demand for Argentine products had fallen sharply.

The best solution, therefore, was obviously import substitution. In that connection, good results had been obtained in the development of oil resources, where high profits had attracted investment; but in the steel industry the necessary confidence still had to be built up.

/ The industrial

The industrial expansion process was being somewhat hampered by a lack of the necessary skilled personnel; but training facilities were gradually being improved. All those efforts, exerted within the framework of the common market, would enable Argentina to attain the desired objectives.

Mr. PALACIOS (Guatemala) said that frequent balance of payments difficulties and fiscal problems inevitably discouraged investors. Such difficulties could only be solved by ensuring that the execution of physical programmes was not hampered by lack of coordinated financial planning. Often, for example, there was friction between the public and the private sector, as well as rivalry within the latter. Unless all the various agencies involved formulated a common policy and agreed on a proper division of functions, the most carefully devised development plans would prove of no avail.

Mr. MARTY (Chile) said that the secretariat analysis fully confirmed the need for a common market. Mention might also have been made, however, of such matters as improved specialization, greater competition and increased productivity. Perhaps those points would be considered in a supplementary study.

Mr. van PHILIPS (Netherlands) agreed that a Latin American common market would greatly contribute to the region's economic development. Many difficulties, however, would still have to be solved. The reasons which had prompted the creation of the European Common Market, namely,

/ the volume

the volume of intra-regional trade and the complementary nature of the economies of many of the countries concerned, did not apply with equal force in Latin America, where special efforts would have to be made to determine the particular contribution which each country could make to the desired over-all expansion. In the final analysis, however, not only would the common market assist economic development but economic expansion would promote the growth of the common market.

With reference to manpower, he mentioned the work done by the Inter-Governmental Committee for European Migration, which had helped many Latin American estates to obtain skilled workers from the industrially developed countries.

Mr. CERRO CEBRIAN (Peru) disagreed with the FAO representative's view that the expansion of agricultural production had been hampered mainly by Government apathy. Peru had made strenuous efforts to increase its agricultural exports, but had encountered insuperable obstacles in the form of quota restrictions, subsidized competition and other unilateral measures. The ECLA secretariat might perhaps examine that problem in its proper perspective.

He fully shared the Guatemalan representative's views regarding the need for proper financial planning.

The CHAIRMAN proposed that agenda item 12 (Statistics) should be referred to a working group, composed of representatives of Argentina, Guatemala, Mexico, Panama, the United States of America, and Venezuela. The group would be open to any delegation that might wish to participate

It was so decided.

The meeting rose at 1 p.m.